

**PROPERTY TAX
Class 4d class rate modification
and transition aid**

March 22, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 3945 (Weber) / H.F. 4411 (Howard) as introduced

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
Property Tax Refund Interactions	\$0	\$0	\$0	(\$2,920)
Class 4d Transition Aid	\$0	\$0	\$0	(\$810)
Income Tax Interactions	\$0	\$0	\$0	\$10
General Fund Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$ 10</u>

EXPLANATION OF THE BILL

Under current law, the first tier valuation limit for each unit of class 4d low income rental housing property is adjusted annually by the average statewide change in estimated market value of property classified as class 4a apartments and 4d low income rental housing, excluding valuation change due to new construction. The first tier has a classification rate of 0.75% and the second tier has a classification rate of 0.25%. The first tier valuation limit is \$174,000 for assessment year 2021 and \$100,000 for assessment years 2022 and 2023.

The proposal would remove the tiered classification rates and set the classification rate at 0.25% for all class 4d property. To be classified as class 4d, a property owner would need to receive approval from the governing city or town where the property is located before submitted an initial application to the Housing Finance Agency for property that has not, in whole or in part, been classified as 4d prior to assessment year 2023. These changes would be effective beginning with assessment year 2023.

The proposal would also create a transition aid for calendar years 2024 and 2025 for cities that have a decrease in tax base of more than two percent due to the proposed changes to class 4d.

REVENUE ANALYSIS DETAIL

- According to data from Minnesota Housing Finance Agency, there were about 84,000 units of class 4d low income rental housing property statewide in 2021.
- In assessment year 2021, there were approximately 3,500 parcels statewide that contained class 4d low income rental housing property. The total market value for class 4d property in the same year was \$8.0 billion statewide.
- The proposal would shift property taxes away from class 4d properties and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase in fiscal year 2025.

- The transition aid is estimated to be \$810,000 for 39 cities in fiscal years 2025 and 2026.
- It is assumed that transition aid to cities would reduce property tax levies by a portion of the increase, which would reduce property taxes on all property classes, including homesteads.
 - Lower levies would result in lower homeowner property tax refunds, reducing costs to the state general fund.
 - Lower levies would result in lower income tax deductions, increasing revenues to the state general fund.
- The overall impact on property tax refunds is the net of both property tax interactions.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral	
<i>Efficiency & Compliance</i>	Increase	Increased simplicity, decreased cost for administrators of 4d classification.
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & Predictability</i>	Neutral	
<i>Competitiveness for Businesses</i>	Neutral	
<i>Responsiveness to Economic Conditions</i>	Neutral	

The bill is scored on a three-point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
 Property Tax Division – Research Unit
<https://www.revenue.state.mn.us/revenue-analyses>

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